

## Minutes of Budget/Strategy Meeting – 8 February 2001

Attendees: David Cox, Rich DiMichele, Jeff Donahue, Jim Fallon, Kevin Garland, Kevin Howard, Phillip Lord, Kristina Mordaunt

Purpose: To generate discussion and formulate potential solutions to our potential 2001 budget shortfall.

### Resolutions:

1. The solution must be commercially-driven, address mission-critical issues, drive organizational change and use a top-down approach.
2. We need to address the overall commercial plan that will enable us to generate maximum earnings, review our cost structure and focus on our Q1 2001 target.
3. The group decided to take a “zero-based” approach to budgeting. The group’s consensus was that EBS could realistically achieve a gross margin target in the range of \$ 300 million for 2001; accordingly, we should strive to cap total expenses at \$400 million for the year (\$300 million plus 65 loss plus 35 overview).
4. Earnings would be divided among the groups as follows: Origination: 100, Media and Entertainment: 100, Trading/MidMarket: 100, Overview: 35
5. We should focus on eliminating costs that do not support mission-critical objectives.
6. We should strive to manage costs in areas that are essential to mission-critical objectives with extreme vigor.

### Beliefs:

1. Certain aspects of the PR/Marketing function are non-essential and should be reduced substantially.
2. International operations should be scaled back significantly because they have little chance of impacting the bottom line this year (except for trading) and because we do not need a massive international presence at this stage in the EBS life-cycle.
3. EBSS is non-essential and should be sold or shutdown.
4. The network should be scaled back significantly since there is no commercial support for continued development.
5. The Portland office is non-essential and should be shut down. Some employees would be offered positions based in Houston. The majority would be terminated. (Need to understand costs)
6. Wholesale Origination (Ted) and Enterprise (Crowder) would be rolled up under Fallon and would comprise a new group called Mid-Market. There would be some rationalization of these groups as part of this reorganization. A new group comprised of Cox, DiMichele, Seeligson and Richter would be formed to do Origination.
7. Media Cast would be shutdown. There are no longer any commercial people selling Media Cast. All technical people would be reviewed for possible redeployment. Non-essential personnel would be terminated.
8. Depreciation is a big swing item. We have assumed that no change can be made to depreciation; therefore we are limited to spend 270 million (400 million less 130 depreciation). Since 2001 plan assumed 511 million of costs excluding depreciation (228 + 138 + 70 + 75) we have to come up with savings of 241 million to reach our target of 270. We believe the budget can be cut by 186 leaving an overview of 55 million.

### Proposed Cost Reductions:

<u>Area</u>	<u>Per 2001 Plan</u>	<u>Proposed Plan</u>	<u>Net Change</u>
PR/Marketing	19	3	(16)
Asia	77	20	(57)
Europe	45	30	(15)
EBSS	16	3	(13)

